



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LETCHER COUNTY SHERIFF**

Calendar Year 1995

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Carroll Smith, Letcher County Judge/Executive
Honorable Stephen Banks, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the Sheriff of Letcher County Kentucky, for the year ended December 31, 1995. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Sheriff for the year ended December 31, 1995, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty , Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
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Our audit was made for the purpose of forming an opinion on the financial statement taken as a whole. The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly presented in all material respects in relation to the financial statement taken as a whole.

Based on the results of our audit, we have presented comments and recommendations, included herein, which discuss the following areas of noncompliance:

- The Sheriff Should Have Required Depository Institutions To Pledge Additional Securities Of \$1,099,743 As Collateral And Entered Into A Written Agreement To Protect Deposits
- The Sheriff Should Publish His Annual Financial Statement And Present It To The Fiscal Court
- The Sheriff Should Submit Required Quarterly Financial Reports To The Department For Local Government
- The Sheriff Should Pay 1995 Excess Fees Of \$13,454 To The Fiscal Court
- The Fiscal Court Should Set One Total For All Deputies' Salaries And Fringe Benefits
- The Sheriff Should Issue Receipts For All Money Received
- The Sheriff Should Expend Public Funds Only For Necessary Expenses Of The Sheriff's Office
- The Sheriff Should Eliminate The Cumulative Deficits Of \$8,597 In His Official Fee Accounts
- The Sheriff Should Invest Funds In An Interest-Bearing Account
- The Sheriff Should Maintain Payroll Records
- The Sheriff Should Comply With Bid Requirements
- The Sheriff Should Comply With The Uniform System Of Accounts
- The Sheriff's Office Does Not Have An Adequate Segregation Of Duties
- The Payroll Account Should Not Have A Negative Balance Of \$19,488
- The Sheriff Should Account For All Bank Loans By Maintaining A Ledger

In accordance with Government Auditing Standards, we have also issued a report dated May 5, 1999, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 5, 1999

LETCHER COUNTY
STEPHEN BANKS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1995

Receipts

State Grants		\$	20,744
State Fees For Services:			
Finance and Administration Cabinet	\$	13,377	
Delinquent Tax		<u>54</u>	13,431
Circuit Court Clerk:			
Court Ordered Receipts			6,434
Fiscal Court:			
Employer's Share FICA			12,106
County Clerk - Delinquent Taxes			20,778
Commission On Taxes Collected			205,297
Fees Collected For Services:			
Auto Inspections	\$	465	
Serving Papers		<u>5,941</u>	6,406
Other:			
Kentucky River Community Care	\$	4,910	
Dare Receipts - School		6,302	
Rent for Public Advocacy Use		1,019	
Miscellaneous		<u>9,193</u>	21,424
Borrowed Money:			
Bank Note			<u>97,482</u>
Gross Receipts (Carried Forward)		\$	404,102

LETCHER COUNTY
 STEPHEN BANKS, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1995
 (Continued)

Gross Receipts (Brought Forward)	\$	404,102
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Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Gross Salaries	\$	128,054
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Employee Benefits-

Employer's Share Social Security	12,405
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Payroll Bank Account Overdraft	9,397
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Materials and Supplies-

Miscellaneous	10,901
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Auto Expense-

Gasoline	51,196
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Auto Purchase	7,567
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Other Charges-

Conventions and Travel	199
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Telephone	3,802
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Postage	1,408
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Supplies	19,902
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Bond	254
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Transporting Prisoners	8,998
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Interest on Bank Loans	971
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Bank Charges for Overdrafts - Payroll Account	3,843
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Miscellaneous	260
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\$	259,157
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Debt Service-

Bank Loans	88,403
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Unpaid Liabilities-

First Security Bank-Loan	9,271
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Total Disbursements (Carried Forward)	\$	356,831
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LETCHER COUNTY
 STEPHEN BANKS, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1995
 (Continued)

Total Disbursements (Brought Forward)		\$	356,831
Less: Disallowed Disbursements-			
Donations	\$	245	
Travel		212	
Film Processing		45	
Equipment		1,400	
DARE		360	
Undocumented Bank Loan		4,324	
Interest on Bank Loan		971	
Bank Charges for Overdraft-Payroll Account		3,843	11,400
Total Allowable Disbursements		\$	<u>345,431</u>
Net Receipts		\$	58,671
Less: Statutory Maximum			<u>45,217</u>
Excess Fees Due County for Calendar Year 1995		\$	<u><u>13,454</u></u>

The accompanying notes are an integral part of the financial statement.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT

Calendar Year 1995

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year. A schedule of excess of liabilities over assets is included in this report as a supplemental schedule. The schedule indicates the cumulative effect of prior year deficits under the respective fee official.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent.

LETCHER COUNTY
 NOTES TO FINANCIAL STATEMENT
 Calendar Year 1995
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of April 30, 1995, the uncollateralized amount on deposit was \$1,099,743. The pledged collateral and FDIC insurance did not equal or exceed the amount on deposit. In addition, the Sheriff did not have a written agreement with the depository institution.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end or as of April 30, 1995.

	<u>Bank Balance</u>
Collateralized with securities held by the county's agent in the county's name	\$ 595,332
Uncollateralized and uninsured	<u>1,099,743</u>
Total	<u><u>\$ 1,695,075</u></u>

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
Calendar Year 1995
(Continued)

Note 4. Notes Payable

The office of Sheriff is liable for a secured note payable to Bank of Whitesburg in the amount of \$7,567. Purpose of the note was to purchase a car. The note matures upon demand and the interest rate is 11 percent. The office of Sheriff is in compliance with the terms of the agreement as of December 31, 1995. This note was paid on March 12, 1996.

The office of Sheriff is liable for an unsecured note payable to the Bank of Whitesburg Ky. in the amount of \$1,400. Purpose of the note was to purchase a car. The note has an interest rate of 12 percent and matures July 6, 1996. This note was also paid on March 12, 1996.

The office of Sheriff is liable for notes payable to the First Security Bank of Whitesburg in the amounts of \$7,200 and \$4,324. These notes were used for payroll until the Sheriff's office began collecting tax commissions. As of our audit date, the \$7,200 loan had not been paid. The \$4,324 loan was paid on August 11, 1997.

The Sheriff's office is liable for a Victims' Advocacy Fund loan from the First Security Bank of Whitesburg in the amount of \$2,071.

Note 5. Lease

The Sheriff's office is committed to a lease agreement with First Security Bank of Whitesburg for a 1988 Ford Bronco. The agreement requires a monthly payment of \$206 for sixty months ending November 1997. The total balance of the agreement was \$4,498 as of December 31, 1995.

Note 6. DARE Account

The Sheriff has a DARE Account at First Security Bank of Whitesburg, with use restricted to drug education and enforcement. The balance as of December 31, 1995 was \$2,531.

Note 7. Victim's Advocacy Account

The Sheriff has a Victim's Advocacy Account at First Security Bank of Whitesburg which is restricted. The balance as of December 31, 1995 was \$1,952.

LETCHER COUNTY
STEPHEN BANKS, SHERIFF
CUMULATIVE SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

December 31, 1995

Assets

Cash in Bank:

1995 Fee Account	\$	2,290
1992 Fee Account		7,396
1994 Fee Account		3,684

Deposits in Transit		4,807
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Receivables:

Due From 1992 Fee Account		4,258
Due from 1993 Fee Account (Delinquent Tax)		113
Due From 1993 Tax Account		15,502
Due from 1994 Tax Account (Interest)		3,346
Underpayment of tax commissions- 1994 taxes		3,330
Commissions due from 1996 Account		122,079
Transfer from 1994 Account		6,874
Victim's Advocacy Account		2,848
Due to 1994 Fee Account-Balance of Commissions		8,503

Total Assets	\$	185,030
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Liabilities

Overdraft- Payroll Account	\$	12,883
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Outstanding Checks		19,424
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Obligations Paid After December 31, 1995:

Letcher County Fiscal Court-		
Retirement	\$	701
Health Insurance		33
1990 Excess Fees		2,166
1992 Excess Fees		1,340
Transfer to 1994 Fee -Victim's Advocacy Reimbursement		1,019
Audit Fees		6,400
Sheriff Salary -1993 Calendar Year		18,488
Due to 1995 Account from 1994 Account		6,874
		37,021

STEPHEN BANKS, SHERIFF
CUMULATIVE SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS
December 31, 1995
(Continued)

Liabilities (Continued)

Unpaid Obligations:

Letcher County Fiscal Court-		
1991 Excess Fees	\$	4,963
1994 Excess Fees		8,829
1995 Excess Fees		13,454
First Security Bank -Loans		9,271
Fee Account- 1994		
Balance of Commissions - Due from 1995 Account		8,503
Reimbursements for Bank Loans Paid From Other Accounts-		
1996 Fee Account		63,247
1997 Fee Account		<u>16,032</u>
Total Unpaid Obligations	\$	<u>124,299</u>
Total Liabilities		<u>\$ 193,627</u>
Total Fund Deficit as of December 31, 1995		<u><u>\$ (8,597)</u></u>

COMMENTS AND RECOMMENDATIONS

LETCHER COUNTY
STEPHEN BANKS, SHERIFF
COMMENTS AND RECOMMENDATIONS

Calendar Year 1995

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Have Required Depository Institutions To Pledge Additional Securities Of \$1,099,743 As Collateral And Entered Into A Written Agreement To Protect Deposits

The Sheriff's deposits were not adequately secured by \$1,099,743 as of April 30, 1995. Under provisions of KRS 66.480(1)(d) and KRS 41.240(4), banks are required to provide collateral for interest-bearing and noninterest-bearing deposits if either exceeds the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. The Sheriff should require the depository institution to pledge sufficient collateral to secure deposits at all times. We also recommend the Sheriff enter into a written agreement with the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Management's Response:

We have this now.

2. The Sheriff Should Publish His Annual Financial Statement And Present It To The Fiscal Court

The Sheriff did not publish his annual financial statement, nor present it to the Fiscal Court. KRS 424.220 (6) requires the Sheriff to publish the report within sixty days after the close of the calendar year. KRS 134.310 requires the Sheriff to file annually a complete statement of all funds received by his office and a complete statement of expenditures of his office. We recommend the Sheriff comply with the above statutes.

Management's Response:

We will do this in the future.

3. The Sheriff Should Submit Required Quarterly Financial Reports To The Department For Local Government

The Sheriff did not submit the required quarterly financial reports to the Department for Local Government. KRS 68.210 requires quarterly reporting of revenues and expenditures to the Department for Local Government. We recommend the Sheriff comply with this statute.

Management's Response:

We are in compliance now and using the proper reports.

LETCHER COUNTY
STEPHEN BANKS, SHERIFF
COMMENTS AND RECOMMENDATIONS
Calendar Year 1995
(Continued)

4. The Sheriff Should Pay 1995 Excess Fees Of \$13,454 To The Fiscal Court

The Sheriff owes the Fiscal Court \$13,454 in excess fees for calendar year 1995. He also owes excess fees of \$4,963 for calendar year 1991 and \$8,829 for calendar year 1994. KRS 134.310 requires the Sheriff to pay excess fees to the Fiscal Court within sixty (60) days after the end of the year. We recommend the Sheriff comply with this statute by paying all excess fees to the fiscal court.

Management's Response:

The Fiscal Court voted to allow us to keep the 1991 fees. We will get a copy of this order for you.

5. The Fiscal Court Should Set One Total For All Deputies' Salaries And Fringe Benefits

The Fiscal Court did not set the maximum amount that the Sheriff could spend for salaries for his deputies for 1995 calendar year. KRS 64.530 requires that the Fiscal Court set the maximum amount that the Sheriff can spend for salaries. We recommend the Sheriff request the Fiscal Court set the maximum deputies' salaries on a yearly basis.

Management's Response:

In January of each year, I now present this to the Fiscal Court.

6. The Sheriff Should Issue Receipts For All Money Received

The Sheriff did not issue receipts and post to the receipt ledger all funds received. There were several instances where funds were received and deposited without being posted to the receipt ledger. A total of \$128,545 was deposited into the payroll account and was not recorded in a receipt ledger. There were instances where the Sheriff received monies from bank loans and did not record the receipts nor deposit the bank loan receipts into the official bank account. Purchases were made with these funds and no record was maintained indicating what these funds were used for. KRS 64.840 requires the issuance of a duplicate receipt for all fees for which the state does not supply a standard form. We recommend receipts be issued for all funds received, a duplicate copy kept for audit purposes, all receipts be recorded in the receipt ledger, deposited into the official bank account, and checks be written for all disbursements.

Management's Response:

We are doing this now.

LETCHER COUNTY
 STEPHEN BANKS, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 Calendar Year 1995
 (Continued)

7. The Sheriff Should Expend Public Funds Only For Necessary Expenses Of The Sheriff's Office

The Sheriff paid \$11,400 from his fee account for the following expenses:

<u>TYPE</u>	<u>AMOUNT</u>	<u>REASON DISALLOWED</u>
Donations	\$ 245	Not necessary
Travel	212	No documentation
Film Processing	45	No documentation
Equipment	1,400	No documentation
DARE Program	360	No documentation
Interest on Bank Loan	971	Sheriff did not participate in State Advancement Program
Bank Loan	4,324	No documentation
Bank Overdrafts-Payroll Account	<u>3,843</u>	Not necessary
Total Disallowed	<u>\$ 11,400</u>	

In Funk vs Milliken, (317 S.W., 2d 499(KY, 1958)) Kentucky's highest court reaffirmed the rule that county fee officials expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in nature, beneficial to the public, and not personal in nature. The expenditures noted above were not necessary or adequately documented. Therefore, the above expenditures of public funds were disallowed. We have included the effect of disallowing these expenditures in computing the Sheriff's cumulative deficit. In the future, we recommend the Sheriff retain proper documentation for all purchases made from his official bank account and use public funds only for expenses which are necessary for the operation of his office.

Management Response:

We want to check on the above items for invoices.

Auditor's Note:

No additional invoices were submitted.

8. The Sheriff Should Eliminate The Cumulative Deficits Of \$8,597 In His Official Fee Accounts

As of audit date, the Sheriff has a cumulative deficit of \$8,597 in his official fee account. This deficit resulted from disallowed disbursements. The Sheriff should deposit personal funds in the amount of \$8,597 to eliminate this deficit. In the future, we recommend the Sheriff implement proper accounting procedures for documenting disbursements and monitoring them for official business purposes.

Management's Response:

Would like to defer response until we have time to check on disallowed expenses.

LETCHER COUNTY
STEPHEN BANKS, SHERIFF
COMMENTS AND RECOMMENDATIONS
Calendar Year 1995
(Continued)

9. The Sheriff Should Invest Funds In An Interest-Bearing Account

The Sheriff did not maintain an interest-bearing bank account for monies received from fees and services of his office. KRS 66.480 states that county officials, at the direction of the Fiscal Court, shall invest money under their control. We recommend the Sheriff invest all monies in an interest-bearing account.

Management's Response:

The service charges are more than the interest that would be earned.

10. The Sheriff Should Maintain Payroll Records

The Sheriff's office did not maintain timesheets or timecards for calendar year 1995. According to KRS 337.320, "Every employer shall keep a record of

- (a) The amount paid each pay period to each employee;
- (b) The hours worked each day and each week by each employee; and
- (c) Such information as the secretary requires."

We recommend the Sheriff maintain payroll records required by federal and state agencies.

Management Response:

We have now purchased a time clock and everyone has time cards.

11. The Sheriff Should Comply With Bid Requirements

The Sheriff purchased a vehicle for \$13,500 during calendar year 1995 for which no bid was obtained. KRS 424.260 states, "Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commissioner of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than ten thousand dollars (\$10,000) without first making newspaper advertisement for bids." We recommend the Sheriff comply with KRS 424.260 and obtain bids for all expenditures of \$10,000 or more.

Management's Response

We think we did advertise in the Mountain Eagle newspaper and send out bid forms to several car dealerships.

Auditor's Note:

We could find no documentation of this advertisement.

LETCHER COUNTY
STEPHEN BANKS, SHERIFF
COMMENTS AND RECOMMENDATIONS
Calendar Year 1995
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

1. The Sheriff Should Comply With The Uniform System Of Accounts

The Sheriff did not follow proper accounting procedures nor maintain correct records.

- (1) Some receipts were not posted to the ledger
- (2) The disbursement ledger was not correct
- (3) The ledgers were not reconciled to the monthly bank statements and the required quarterly reports were not maintained

We recommend the Sheriff's office maintain correct receipts and disbursements ledgers and reconcile these ledgers to monthly bank statements and maintain required quarterly reports.

Management's Response:

The receipts and disbursements ledgers are now adequate. The Bookkeeper and CPA reconcile back to the bank. We will maintain bank loan agreements.

2. The Sheriff's Office Does Not Have An Adequate Segregation Of Duties

The Sheriff's office lacks an adequate segregation of duties. Due to limited staff size, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties is a reportable condition pursuant to professional auditing standards.

Management's Response

We have worked to improve but are limited to options. I agree segregation of duties needs to be improved.

3. The Payroll Account Should Not Have A Negative Balance Of \$19,488

After outstanding checks and liabilities have been posted, the payroll account had a negative balance of \$19,488 at December 31, 1995. During our audit, there were overdraft charges totaling \$3,843 from the payroll account. We recommend the payroll account be reconciled at the end of each month. Each time a payroll is completed, the money for all liabilities should be transferred over to the payroll account before payroll checks are disbursed. This will eliminate any overdraft charges being charged to the Sheriff's bank account. Bank reconciliations completed each month will help assure that proper accounting for payroll. These bank overdrafts are included in the Sheriff's cumulative deficit of \$8,597.

Management's Response

We are now doing payroll deposits before the payroll is issued.

LETCHER COUNTY
 STEPHEN BANKS, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 Calendar Year 1995
 (Continued)

4. The Sheriff Should Account For All Bank Loans By Maintaining A Ledger

The Sheriff borrowed money from the bank to pay for payroll until he received his tax commissions. No ledger was maintained for these loans. Some loans were deposited into the fee account and payroll account but were not recorded in the receipt ledger. Whenever these loans were repaid, the Sheriff did not post the repayment to his disbursement ledger. The Sheriff did not keep a copy of loan agreements, so auditors had great difficulty determining if all loans had been accounted for. The Sheriff had two (2) loans that were especially difficult to locate. After much inquiry, it was determined one of these loans, \$4,324, could not be accounted for. We have included this loan as a disallowed disbursement on the Sheriff's financial report because of the lack of documentation. The other loan for \$7,567 was never deposited and was used to purchase a vehicle. It was included both as a receipt and disbursement on the Sheriff's financial report. Furthermore, the Sheriff's prior year audit indicated that \$82,834 was received for loans. Our fieldwork indicated that \$96,059 had been repaid for prior year loans. We could not determine the source of the variance in amounts received and repaid. In the future, we recommend all bank loans be recorded in the receipt ledger and that they be deposited into the Sheriff's official fee account. Whenever loans are repaid, the repayment should be recorded in the disbursement ledger. Furthermore, a copy of all loan agreements should be maintained for audit purposes. Finally, the Sheriff should not obligate funds for more than one year. All loans received should be repaid from current operating revenue.

Management's Response:

We now keep better record of loans.

PRIOR YEAR:

The following items have been noted in prior year audits and have not been corrected:

- The Sheriff should publish his annual financial statement
- The Sheriff should submit quarterly financial reports to the Department for Local Government
- The Sheriff should pay excess fees to the Fiscal Court
- The Fiscal Court should set one amount for deputies' salaries and fringe benefits
- Receipts should be written for all funds received
- The Sheriff should maintain documentation for all expenses
- The Sheriff should implement and maintain proper accounting records
- The Sheriff's office lacks an adequate segregation of duties
- The Sheriff should eliminate the deficit in his official bank accounts
- The Sheriff should invest funds in interest-bearing bank accounts

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Carroll Smith, Letcher County Judge/Executive
Honorable Stephen Banks, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Letcher County Sheriff as of December 31, 1995, and have issued our report thereon dated May 5, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Letcher County Sheriff's financial statement as of December 31, 1995, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Have Required Depository Institutions To Pledge Additional Securities Of \$1,099,743 As Collateral And Entered Into A Written Agreement To Protect Deposits
- The Sheriff Should Publish His Annual Financial Statement And Present It To The Fiscal Court
- The Sheriff Should Submit Required Quarterly Financial Reports To The Department For Local Government
- The Sheriff Should Pay 1995 Excess Fees Of \$13,454 To The Fiscal Court
- The Fiscal Court Should Set One Total For All Deputies' Salaries And Fringe Benefits
- The Sheriff Should Issue Receipts For All Money Received
- The Sheriff Should Expend Public Funds Only For Necessary Expenses Of The Sheriff's Office
- The Sheriff Should Eliminate The Cumulative Deficits Of \$8,597 In His Official Fee Accounts
- The Sheriff Should Invest Funds In An Interest-Bearing Account
- The Sheriff Should Maintain Payroll Records
- The Sheriff Should Comply With Bid Requirements

Honorable Carroll Smith, Letcher County Judge/Executive
Honorable Stephen Banks, Letcher County Sheriff
Members of the Letcher County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Letcher County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider being reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Sheriff Should Comply With The Uniform System Of Accounts
- The Sheriff's Office Does Not Have An Adequate Segregation Of Duties
- The Payroll Account Should Not Have A Negative Balance Of \$19,488
- The Sheriff Should Account For All Bank Loans By Maintaining A Ledger

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be material weaknesses.

- The Sheriff Should Comply With The Uniform System Of Accounts
- The Sheriff's Office Does Not Have An Adequate Segregation Of Duties
- The Payroll Account Should Not Have A Negative Balance Of \$19,488
- The Sheriff Should Account For All Bank Loans By Maintaining A Ledger

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(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 5, 1999

